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Turkey

Retail Foods Sector

1999

Approved by:
Susan Schayes, Agricultural Counselor
U.S. Embassy, Ankara, Turkey

Prepared by:
Russ Nicely, Agricultural Attache
U.S. Embassy, Ankara, Turkey

Drafted by:
IBS Research & Consultancy, Istanbul

Report Highlights:

The $21 billion retail foods sector in Turkey is modernizing rapidly, with hypermarkets arriving in the larger cities, but remains centered on daily shopping at the neighborhood grocer and weekly open markets throughout the country. Modern retailing via supermarkets or larger-sized stores is now targeted for medium-sized cities. Funding for this research was provided through the Emerging Markets Program.

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I. EXECUTIVE SUMMARY

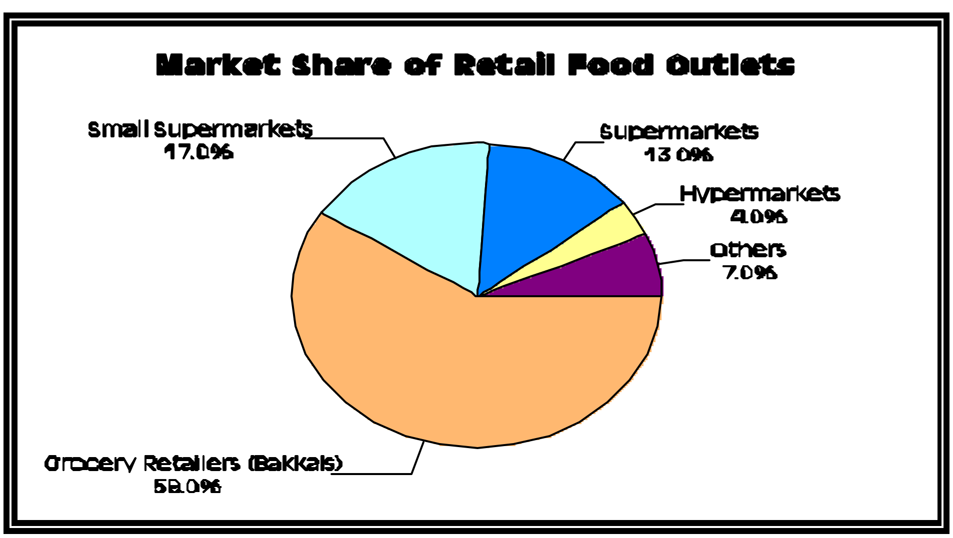
The retailing sector in Turkey has developed rapidly since the 1980s with significant changes both in economic and social structures. Two decades of liberalization of the Turkish economy, stimulated by its Customs Union with the European Union (1996), have freed Turkish entrepreneurial dynamism. Rising income levels, a high urbanization rate, an increase in the number of working women, the influence of Western life style - all these have caused a radical change in attitudes and consumption patterns supporting the development of the retail sector.

Turkey had a total of 169,747 retail outlets in 1998. These include grocery retailers, called bakkal, where the shop worker finds and hands over to customers the items requested - including food items, household cleaning products and personal care items - to the less common but rapidly growing hypermarkets selling food, household items, and durable goods. Food retailing is shifting towards modern retail formats. This transformation has mainly occurred in large cities, but recent investments have targeted medium-sized cities where the population is over 600,000 and shopping habits are changing. However, the share of hypermarkets in the overall retail market is still low, estimated at around 4% in 1998.

The classification of food retail outlets in this study is based on outlet size:

Hypermarkets are over 2,500 square meters (m2),
Supermarkets between 800 and 2,500 m2
Small Supermarkets 100 to 800 m2
Bakkals 100 or less m2.

In 1998, Turkey had an estimated $60 billion retail market, of which $21 billion (35%) were food sales. Total retail food sales broke down as 59% in bakkals, 17% in small supermarkets, 13% in supermarkets, 4% in hypermarkets and the remaining 7% in specialist food retailers and convenience stores and open air bazaars.



TURKISH RETAIL FOOD SECTOR TRENDS, 1994-98 (in $ billion)						
	1994	**1995**	**1996**	**1997**	**1998**	**1994-98 Average Annual Growth Rate (%)**
Bakkals	12.9	13.1	12.9	12.6	12.4	-1
Hypermarkets & Supermarkets	0.9	1.4	2.1	3.0	3.6	47
Small Supermarkets	2.6	2.7	3.0	3.2	3.6	9
Others	0.7	0.7	1.0	1.2	1.5	22
Total	**17.0**	**18.0**	**19.0**	**20.0**	**21.0**	**5**

The annual average growth rate of the total Turkish food retail market between 1994-98 was 5%. The most dynamic sub-sector in food retailing is hypermarkets and supermarkets, with an annual average growth rate of 47%. As of 1998, there were 2,135 hypermarkets and supermarkets in Turkey, of which 100 were hypermarkets. The number of hypermarkets almost tripled between 1996 and 1999 and is expected to reach 200 units by 2000. The share of hypermarkets and supermarkets is expected to increase from their current 17% to 35-40% of the retail market by 2005. Although the share of bakkals decreased from 76% to 59% between 1994 and 1998, this segment still boasts $12.4 billion in sales. But the growth in larger outlets is having an impact on the bakkals, with increasing numbers of them closing. Over the coming five years it is expected that the market share of bakkals will fall to below 50%. In the future the sector will be dominated by major hypermarket and supermarket chains like CarrefourSA, Gima, Migros, Tansas, etc.

Number of Retail Food Outlets				
	1996	**1997**	**1998**	**2000**
Hypermarkets	37	51	100	200
Supermarkets	1,279	1,631	2,035	2,436
Small Supermarkets	10,755	11,411	12,192	13,795
Bakkals	164,366	159,171	155,420	147,715
Total	**176,437**	**172,264**	**169,747**	**164,146**

US retail food product exports had a 12% share of total food imports to Turkey in 1998. Vegetable oils, dairy products, breakfast cereals, chocolate and confectionary goods and beverages were the major US export items. Additionally there has been a significant amount of US rice, corn, cereals and pulses exported to Turkey.

The following is a summary of the advantages and challenges facing US exporters examining the retail food sector in Turkey:

Advantages	**Challenges**
Change in retailing structure has opened new areas for branded import items.	Customs Union with the EU created a privileged position for EU imports to Turkey.
Some US products are better priced than local products.	Transportation costs are much lower for nearby countries.
US products have a good image in Turkey and US tastes are welcomed by Turkish consumers.	There are high import duties on particular products. (Between 12% to 240% on bulk agricultural commodity products and 6% to 140% on processed food products)
International retailers who market a wide range of imported products in the sector have great influence on purchasing patterns.	There is a well-developed local food-processing sector supplying most product segments in the marketplace.
There is a growing demand for specialized products such as diabetic foods, ready-to-eat foods and frozen food, which are mostly imported.	US food products are weakly promoted in Turkey. Competition for shelf space has led to high costs for introducing new products.

II. MARKET STRUCTURE AND SUBSECTOR PROFILES

Turkey's highly fragmented food-retailing structure is in a period of sharp transition, moving from individually-owned small outlets such as bakkals, to large outlets. As the industry changes, the supply chain adapts to the changes. Hypermarkets and major supermarket chains import directly, whereas smaller outlets use intermediaries as importers, distributors, and agents. A new-to-market exporter can directly approach major supermarket chains' purchasing departments. It is also useful to get in contact with independent importers, especially those with nationwide distribution services. A list of major Turkish food importers can be obtained from TUGIDER (Association of Food Importers). There are about 75 specialist food import companies, of which 40 are members of TUGIDER. This organization can be contacted at telephone number (90) (212) 275-2688, at fax number (90) (212) 276-5600 or at ***www.tugider.org.tr***. Another organization which may be of use in arranging Turkish contacts is DEIK, the Foreign Economic Relations Board, who assist Turkish businesses that are interested in moving into international commerce. DEIK can be contacted at telephone number (90) (212) 243-4180, fax (90) (212) 243-4184, or at ***www.deik.org.tr*** .

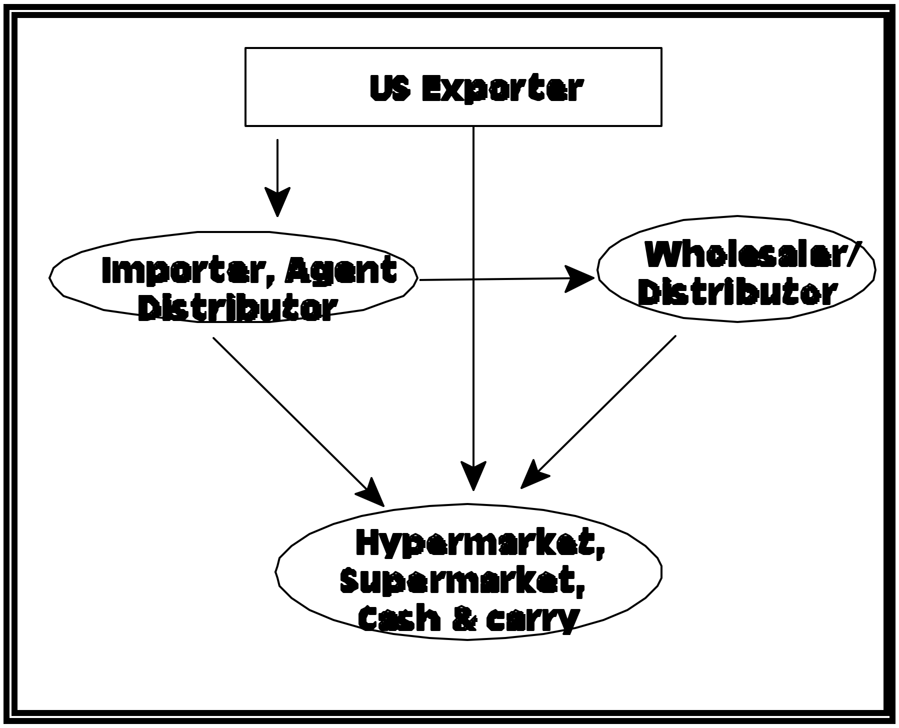
A. Supermarkets, Hyper Markets, Club and Warehouse Outlets

Hypermarkets have recently become fashionable investments within the retailing sector in Turkey. Sabanci, Koc and Dogus, three major conglomerates in Turkey, are heavily involved in this sector. Currently there are 21 conglomerates operating in the Turkish retail business. Foreign investors present in the Turkish retail market prefer to form joint-ventures with Turkish companies, as seen with CarrefourSA (France) and Sabanci JV, Bookers (UK) and Sezginler JV.

Large western-style retail outlets have started to flourish in Istanbul, Ankara and Izmir, and other large cities such as Adana, Gaziantep, Bursa, Kocaeli and Mersin. Here consumers are more aware of international trends, have higher disposable incomes, and have automobiles to reach large warehouse-sized stores. Middle and upper-middle income shoppers are drawn to these larger stores, especially if they provide imported and specialty items, previously only available at small specialty shops or acquired when travelling abroad.

Distribution Channels

Although distribution options vary depending on the product involved, the typical product goes through the following stages to reach the consumer: manufacturer/importer - distribution company/department - large-scale wholesaler - wholesaler/distributor - retail unit.



- *Typically, products are imported by an importer or agent who may also be a wholesaler and/or distributor.*

- *Significant number of distributors offer nationwide service. Nearly 50% of total food and other consumer goods are distributed by national distributor companies.*

- *30% of major manufacturers have their own distribution company operating nationwide.*

- *Most hypermarkets import directly besides purchasing from other distribution channels.*

- *Some medium sized markets have begun to use e-commerce for the supply of particular foreign products.*

Major Supermarket Profile

Company Name	Type of Outlet	Ownership	Sales CY 1998 $ Million	Number of Outlets	Location (# of)	Purchasing Agent
Migros	hyper, super & discount stores (SOK)	Turkish	889	121 (Migros) 144 (SOK)	Nationwide	Direct Importers
Metro	cash & carry / club centres	German	400	6	Istanbul (2), Izmir, Bursa, Ankara, Adana	Direct
BIM	discount stores	Turkish, US & Saudi Arabian	325		Nationwide	Direct
Tansas	hyper & supermarkets	Turkish	307	103	Agean Region (101), Istanbul (2)	Importers, Distributors
Gima	supermarket & discount stores (Stop)	Turkish	131	60 (Gima) 30 (Stop)	Nationwide	Importers, Distributors
Carrefour SA (JV)	hypermarkets	Turkish & French	120	2	Istanbul, Adana	Direct
Oypa	hyper & supermarkets	Turkish	120	29	Nationwide	Importers, Distributors
Begendik	hyper & supermarkets	Turkish	100	10	Istanbul, Kayseri (2), Ankara(4), Izmir, Mersin, Gaziantep	Importers, Agents
¤smar	supermarkets	Turkish	100	61	Istanbul (58), Zonguldak (2)	Importers, Agents
Continent*	hypermarkets	Turkish & French	90	3	Istanbul, Bursa, Mersin	Direct

Major Supermarket Profile						
Marketim	supermarkets	Turkish	60	78	Marmara Region	Importers, Agents
Makro	hyper & supermarkets	Turkish	50	16	Istanbul (15), Mugla	Importers, Distributors
Kipa	hypermarkets	Turkish	50	9	Izmir	Importers, Agents
Yimpas	hyper & supermarkets	Turkish	50	30	Nationwide	Importers, Distributors
Contour	hypermarkets	French	40	4	Istanbul (3), Ankara	Importers, Distributors
Maxi	hypermarkets	Turkish	30	2	Istanbul, Tekirdag	Importers, Distributors
Spar (JV)	supermarkets	Turkish & Dutch	15	5	Istanbul (4), Samsun	Distributors
Real	hypermarkets	German	n.a.	2	Ankara, Gaziantep	Importers
Booker (JV)	cash & carry	Turkish & UK	n.a.	2	Izmir, Kocaeli	Direct

** As a result of the CarrefourSA and Promodes merge in France, Continent and CarrefourSA were also merged in Turkey by October 1999.*

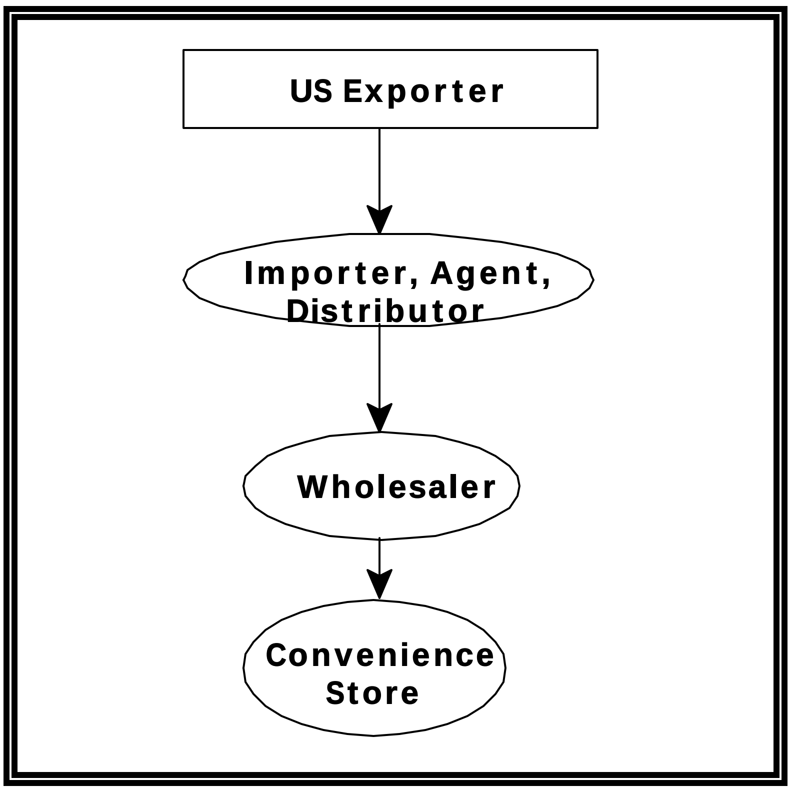
B. Convenience Stores, Gas Marts, Kiosks, Etc.

‘ *There are no organized convenience-type store chains in Turkey, other than Seven Eleven, which introduced the concept in 1995. The new Seven Eleven owner plans to increase the number of outlets from 9 to 75 by the end of 2005.*

‘ *Other convenience stores, gas marts and kiosks are generally single individual enterprises.*

‘ *Gas station mini-marts are also new in Turkey, with seven or eight major brands. Marketim, a market chain, has just made an agreement with Elf Gas Stations to open up 24 hour service gas station mini-marts. They are planning to open 25 outlets initially. Other gas stations and gas mini-marts do not operate as part of a chain marketing system (they self-stock), though this may change in the near future.*

Distribution Channels

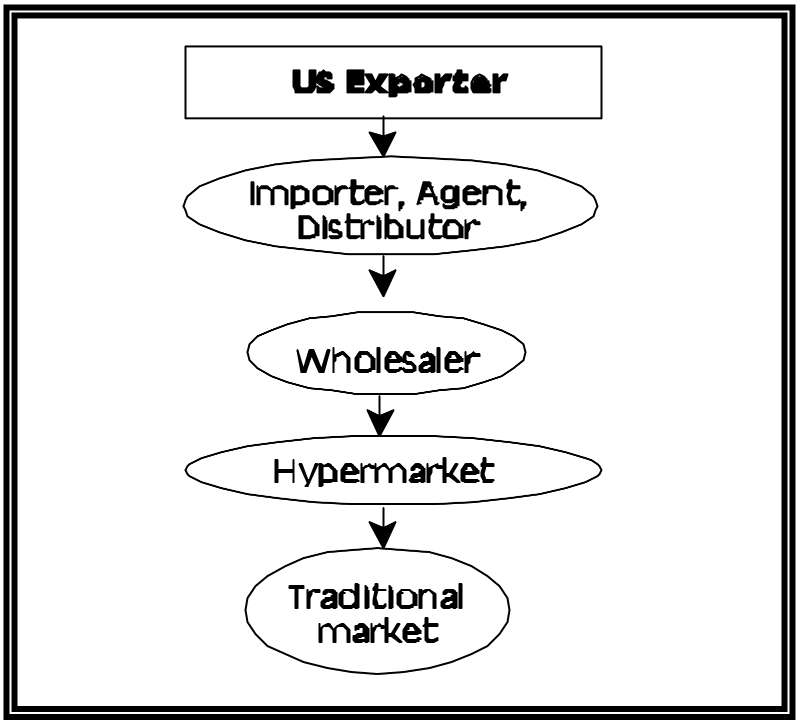


Since this category is currently fragmented with limited sales volume, outlets cannot purchase from first hand distribution units or import directly, so they buy from wholesalers, hypermarkets, as well as importers, agents and/or distributors.

C. Traditional Markets

Bakkals and open air bazaars are forms of traditional outlets in Turkey. Bakkals are small outlets which sell anything from food to personal care products, and open air bazaars mainly concentrate on fresh vegetables and fruits. Both bakkals and open air bazaars are still preferred by the majority of Turkish consumers, constituting 59% and 4% respectively of Turkish retail market. Two main reasons for this preference are: bakkals are in convenient locations close to home, and corner bazaars offer a wide variety of products, fresh fruits and vegetables, clothing, over-the-counter products, and personal care products at low prices.

Distribution Channels



- *Bakkals are supplied from various channels including distributors, agents, wholesalers, small wholesalers, and hypermarkets. Open air bazaars obtain supplies from farmers, specialty wholesalers (vegetables and fruits) and small wholesalers typically deal with other products.*

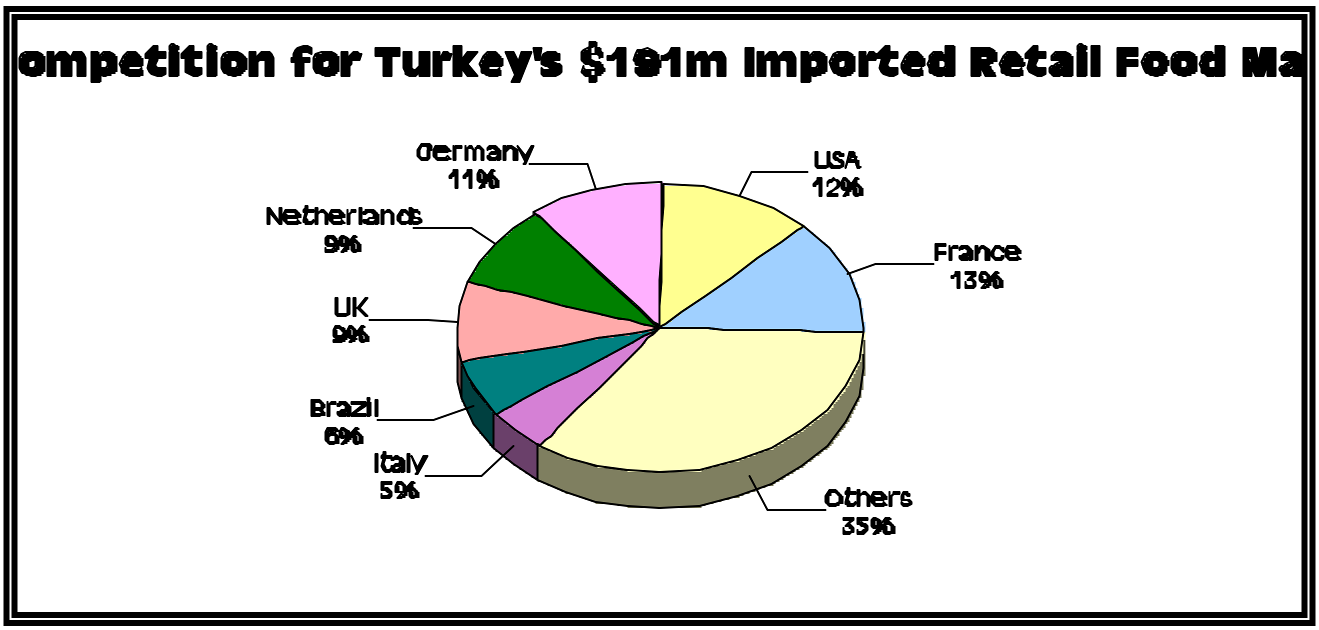
- *The sale of imported food items is much lower in traditional markets than in supermarkets, due to a different customer base. There is little import of fruit into Turkey, other than tropicals such as bananas, kiwis, pineapples, mangos, and papayas. Imported bananas and kiwis are also available at traditional markets whereas mangos and papayas are still for luxury consumption, and are only available at big supermarkets and specialty retail outlets. Recently, Turkey has imported foreign apples as a luxury item.*

- *Imported pulses and rice are available both in bakkals and open air bazaars since domestic production does not meet domestic demand.*

III. COMPETITION

Local food products dominate the Turkish retail market with 99% of market share. In 1998 imported products accounted for only $191 million of the $21 billion retail food market. Confectionery, chocolates, cheeze and butter, coffee and cocoa, snacks, canned food, ready-to-eat meals, soft drinks, mineral water, and alcoholic beverages represent the main retail products currently exported to the Turkish market. They mostly consisted of widely known international branded products.

According to the Turkish State Planning Organization statistics, as of 1998, the United States was the second largest supplier with a 12% share in overall retail food exports to Turkey. The United State's main export items to Turkey for the retail sector were vegetable oil, beverages, dairy products, snacks, flour and flour-based products. France was the largest supplier with a 13% share - its exports were dominated by seafood, chocolate and dairy products.



The main competition for US food products comes from European countries, which enjoy the advantage of the Customs Union Agreement. European countries have a 66% share of total Turkish retail food imports. Investments of major European hypermarket chains such as CarrefourSA and Continent of France, Metro and Real of Germany, Booker of UK, and Spar of the Netherlands have also played a significant role in the dominancy of European countries in Turkish imports of retail food products. Among them France, Germany, the Netherlands, the UK, Italy, Spain, and Denmark accounted for more than 50% of total Turkish imports. Major export items from Germany were chocolates, flour and flour-based products, canned food, milk and dairy products. The Netherlands was fourth in rank, exporting mainly dairy products, chocolates and confectionery goods. The UK, the fifth largest supplier to the Turkish retail market, mainly exported beverages, dairy goods, flour and flour-based products.

IV. BEST PRODUCT PROSPECTS

Products now present in the market

The best product prospects for the imported food market are internationally well-known branded products. Branded products in 1998 accounted for 30% of overall imported food products. These include cocoa and instant coffee, chocolate and confectionary goods, cookies and crackers, breakfast cereal, various cheeses, soft drinks & alcoholic beverages, and sauces. Major imported items break down into the following categories:

Cocoa and instant coffee: Turkey is dependent on imports in this category, since there is no local production of cocoa and instant coffee. The dominancy of the Nestle and Jacobs' brands in the instant coffee market makes it difficult for new entrants to the Turkish market. Recently however, some discount chains and cash & carries, such as BIM and Booker, have commenced the direct importation of low priced products;

Chocolate and confectionary goods: Although there is a very developed local industry in Turkey, major international brands have the opportunity to sell small quantities of premium products in high-end outlets such as delicatessens, hypermarkets and supermarkets. It is very difficult for less known brands to be successful in Turkey;

Ice Cream: Two brands are dominant in Turkish ice cream sold through retail outlets, with many smaller newcomers. Sales are increasing dramatically (15-20%) due to tourism and increasing incomes and there is much room for super-premium brands who can adapt to the local taste preferences or get placement in tourist outlets. See another report, **TU9029 Market Brief - Ice Cream** for details;

Flour and flour-based products: Crackers and cookies, diet breads, crisp breads and special kinds of pasta are present in the Turkish market. These products tend to appeal to higher income consumers, and may only be distributed via upper middle income retail outlets (specialty shops, supermarket and hypermarkets);

Breakfast Cereals: Corn flakes, instant oats, muesli, bran fiber flakes with raisins, mixed fruit and chocolate cereals are major breakfast items welcomed by Turkish consumers;

Petfood: This market is increasing about 20% yearly, with domestic production very limited. Demand is served by imports. See another report, **TU9038 Market Brief - Pet Food** for details.

Products with strong sales potential not present substantially in the market:

Frozen food: Though there is a limited amount of imported frozen food in the Turkish retail market, importers believe that there is good potential in this sub sector over the next five years;

Ready-to-eat & ready-to-cook meals: The ready-to-eat and ready-to-cook meals market has a high potential, linked to the increase in working women and the generally more hectic life styles. There are only a few local companies marketing such products. Foreign importers, therefore, especially those specializing in Far Eastern, French, and Mexican cuisines, have a good chance for successful market entry;

Health Foods, Gourmet/Foreign Foods: There is a growing interest in "healthy foods." Also, as Turkish tastes become more sophisticated, the interest now shown in restaurants featuring novel foods such as "Mexican" and "Chinese" could spread to retail sales;

Energy Drinks & Foods: The young, increasingly wealthy city dwellers favor the "sporting" lifestyle and want the products that go with it. Turkey has no domestic production of "energy" drinks or foods, and few imports at the present time.

Products that are not successful in the market:

There are a few examples of failed products in the Turkish market, such as some international brands of chewing gums and chewing candies. It is not the intrinsic product types that have failed, but the specific brands imported or the inadequate marketing strategies or expenditures applied when the product lines were introduced. Adopting products popular in the west is a large part of the modern Turkish lifestyle. Internationally known brand names are very useful for this. Exporters should be particularly sensitive to brand positioning and be ready to invest in necessary research and marketing support to assist their importing partners in a successful introduction.

V. POST CONTACT INFORMATION

FOREIGN AGRICULTURAL SERVICE
EMBASSY of the UNITED STATES
110 ATATURK BULVARI
ANKARA, TURKEY
TEL: (90-312) 468-6129
FAX: (90-312) 467-0056
INTERNET: agankara@fas.usda.gov
HOMEPAGE: www.usis-ankara.org.tr

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IBS Research & Consultancy can be contacted at:
Kizilkaya Apt.
Abdi Ipekci Cad 59/4-6
Macka, 80200 Istanbul
Turkey
Tel: (90) (212) 231-0481 / Fax: (90) (212) 231-6614
e-mail: mail@ibsresearch.com